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Union Budget – A Conceptual Framework

Dr. Y. P. Singh
Dean – QSB,
Quantum Global Campus, Mandawar,
Roorkee - Dehradun,Uttarakhand,
India
doctorypsingh@yahoo.com

ABSTRACT
Union budget is the '**Brahmastra'** of the Central Government to regulate its revenue income through various means and channelize these resources to different sectors for meeting revenue expenditures as well as capital expenditure. The Governments are said to be representing the aspirations of the people and the nation as a whole. Certain provisions in the budget do stimulate the required change but some others do not meet the expectations. This article is a conceptual framework of the Union budget to examine its different facets and implementing a new economic indicator in place of the traditional ones.

Keywords
Budget,GDP, Productive investment, direct taxes, indirect taxes

1. INTRODUCTION
Central Government represents the whole Country and being the regulator of whole economy, Government enjoys a number of responsibilities towards countrymen. They are,

1.1) Social responsibility
1.2) Economic responsibility
1.3) Political responsibility
1.4) National Security
1.5) International relations

1.1 Social Responsibility
Government has

(i) To remove the discrimination among different groups of society
(ii) To maintain law and order
(iii) To provide basic necessities like education, healthcare for poor.

1.2 Economic Responsibility
Government has

(i) To provide micro credit facilities for the uplift of poor masses.
(ii) To undertake land reforms
(iii) To provide Infrastructure facilities for the Industrial growth.

End result of economic responsibility should be to increase purchasing power of general mass without any discrimination.

1.3 Political Responsibility
This means Accountability towards general public. Under political responsibility Government has to ensure that benefit should reach up to the level for which it is made.

1.4 National Security
Government has to maintain armed forces and Para military forces for the purpose of National Security and even for internal Security.

1.5 International Relations
With the opening of global economy, the responsibility of central government towards international relation has considerably changed and, therefore, a separate budgetary allocation is needed.

To discharge above said responsibilities, Government needs a huge sum and the Government through various means, which is implemented through Union Budget, raises this sum. Thus,

2. UNION BUDGET
Union budget is a Government's Course of action for forthcoming financial year stating sources of revenue to Government and expenditure plan of Government to carry on above said responsibilities.

Following is the different items of budget and its format:

Table 1: Different items of budget

1.Revenue Receipts
2. Tax Revenue (Net to Center)
3. Non-tax Revenue
4. Capital Receipt (5+6+7)
5.Recovery of Loans
6. Other Receipts
7. Borrowings and other liabilities
8.Total Receipts (1+4)
9.Non-plan Expenditure
10. On Revenue Account of which
11. Interest Payment
12. On Capital Account
13. Plan Expenditure
14. On Revenue Account
15. On Capital Account
16.Total Expenditure (9+13)
17.Revenue Expenditure (10+11+14)

18.Capital Expenditure (12+15)
19. Budgetary Deficit (16 – 8)
20.Revenue Deficit (17-1)
21.Fiscal Deficit (16-(1+5+6))
22.Primary Deficit (21-11)

From the above definition, it is clear that there are two main objectives of Union budget,

(1) To administer the revenue income and to provide expenditure plan.
(2) To stimulate economic growth, this will help the Government in discharging above said responsibilities.

Thus, the job of finance minister is to make available finances and to plan for expenditure taking into account the overall economic growth.

3. ECONOMIC GROWTH

It is a very wide term, Here, I would like to clarify that an individual perceives the budget and economic growth on the basis of his/her own knowledge, skill and thinking process. Needless to say I also have my own opinion.

- Over all economic growth is measured in terms of % growth in GDP for the given period (GDP – Gross Domestic Product is the monetary value of all the goods and services produced in the economy during financial year).
- There is a huge disparity in the distribution of income and wealth that is why 20% population contribute 80% of GDP and 80% population contribute only 20% of GDP and the true economic growth will happen when every one will contribute to GDP significantly and therefore social sector reforms must be given top priority.

  Again since 60% of population is dependent on agriculture sector and belong to rural sector and in fact this is the sector, which need social reform and therefore must be given priority in the union Budget to stimulate economic growth.
- For the purpose of this Article, I have form the opinion that in case government ensures the political and economic responsibility an individual itself will ensure social responsibility provided he/she has given adequate purchasing power without any discrimination.
- Needless to say productive investment is the only solution to provide purchasing power to general mass and to stimulate economic growth consequently to protect social interest.
- Here the important point is more and more investment should be there but it must be productive in nature either from public sector, private sector, external sector or joint sector,
- no matter e.g. investment in plot is not regarded as productive investment whereas investment in business is productive investment as it will generate employment and hence will increase purchasing power. Now see how productive investment is linked with economic growth (figure 1).

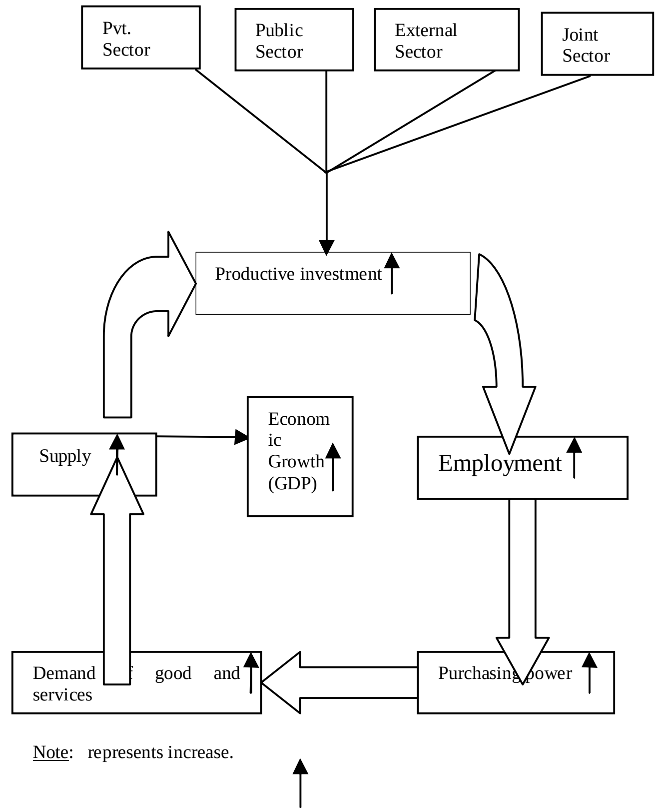


Figure 1. Productive investment is linked with economic growth

4. PRODUCTIVE INVESTMENT

The different aspects of productive investment can be categorized in following manner-

4.1 Requirement for productive investment:

Productive investment requires two things:

(i) Essentials i.e. Infrastructure facilities like transport, power, Information technology and sound financial system for smooth funding. Better Infrastructure not only provides environment for productive investment but also reduces cost of production in terms of utilities cost (fuel and energy), Freight charges etc., and also Increases productivity.
(ii) Necessities means availability of Input factors i.e. material, labor, and financing facility.

4.2 Measures to stimulate productive investment

The important measures are:

(i) Infrastructure facilities: Adequate level of infrastructure facilities should be made available to motivate investment.
(ii) Pricing/Profit margin: Reasonable level of profit margin should be there to continue investment. Pricing is linked with Cost of production, higher the cost of production, higher will be the price for given level of profit.

(iii) Cost of fund i.e. real interest rate: To stimulate productive investment real interest rate should be kept low. Financial Sector reform should result in lower real interest rate.

4.3 Area for productive investment

For the purpose of investment the whole economy is divided into three sectors viz.

- Industrial Sector - manufacturing, trading and core sector
- Service Sector - hospitality, entertainment, journalism, telecommunication, banking, insurance, tourism etc.
- Agriculture Sector – food processing, farming, dairy etc.

During the previous years (2012 – 13), the overall growth rate (measured in terms of GDP Growth rate) was between 7 to 8 %. The sector wise growth rate was as follows-

Industrial Sector – 6 to 7%
Agriculture Sector – 3 to 4 %
Service Sector – 11 to 12 %

The slowdown in growth rate of Industrial Sector and Agriculture sector was mainly due to lack of respective Infrastructure.

4.4 Limitations before the Central Government towards productive Investment

- In a federal System more than 70% investment is done through State Governments and, therefore, Union government has little to do with so called productive investment.
- **Political setup in democratic environment:** This plays significant role in decision-making process especially when political setup is based on collation government where parties with different ideology agree to run government and consequently to take decision. Such political setup restrict finance minister to take hard decisions to boost overall economic growth e.g. cut in subsidy or to go for more and more disinvestments of profit making PSUs to cut expenditure and hence to curb fiscal deficit is not possible because in present collation government at central 'LEFT' parties are supporting the government and such decisions are against their ideology.

4.5 Problems before Central Government towards productive Investments

- Despite all the limitations before central government, the major problem before the central government towards public spending is huge fiscal deficit (Fiscal deficit measures total external borrowings to implement expenditure plan) - See **Appendix I**. Unfortunately the huge fiscal deficit is almost because of Interest payment obligation (See **Appendix II**).
- In other words if there is no interest payment there will be no fiscal deficit means our resources are almost sufficient to meet our expenditure plan.
- Again huge Interest payment is non-productive expenditure leaving limited resources before the central government to implement capital projects or Infrastructure projects. This is the reason why most of the government project proposals are lying pending since long period because revenue expenditure like interest payment, salary & wages, subsidies etc. cannot be postponed resulting into delay in implementation of capital projects.
- Here it may be pointed out that the problem is not with the fiscal deficit, problem is with the cause of fiscal deficit, which is huge interest payment obligation. In case fiscal deficit is due to huge capital expenditure then there is no problem, as it will stimulate economic activity, which will lead to economic growth. The normal impact of fiscal deficit in this case will result in the form of increase in inflation rate because of increase in demand of input factors.

Thus, it becomes prime objective to correct fiscal deficit.

5. PROBLEMS WITH PRIVATE SPENDING IN INFRASTRUCTURE PROJECTS

Following is the characteristics of Infrastructure projects:

- Less profitability (Return On Investment)
- High Capital Investment
- High gestation period.

Because of above characteristics, private spending in Infrastructure projects are very poor and therefore huge public spending in this sector is the only solution because Government is the ultimate regulator of economy

5.1 Problems with private spending in Agriculture sector

Like Infrastructure projects, Agriculture sector is also not attractive for private spending because of following reasons.

- Low pricing (i.e. Minimum support price) minimum support price of agriculture produce is determined by central government, which is very low.
- Problem of Storage of Surplus food grains.
- Restriction on free trade of Agriculture produce.

Because of the above reasons huge public spending is required to create infrastructure for Agriculture produce.

5.2 Measures taken by central Government in Union Budget (2014)

Taking into account the above said responsibility towards countrymen, limitations and problems before the central government and problems related with private spending in Infrastructure sector and Agriculture sector and to stimulate productive investment in order to ensure economic growth, the central government need to take various measures in its proposed Union Budget 2014 as outlined in following paragraph[2]

5.4 Measures against taxation:

- **Indirect Taxes:** A levy imposed by the government on spending on goods and services is referred as indirect tax.
- **Direct taxes:**A levy imposed by the government on income, wealth and capital gains of persons and businesses.

5.5 Measures to develop infrastructure for industry

The revival of basic infrastructure required for industrial development is not possible without private participation as government is running with problem of huge fiscal deficit leaving limited resources for public spending. In the forthcoming budget government should take a number of initiative to attract joint venture and to revive different sectors of economy.

- Measures for development of Rural Sector (rural sector reforms):
- Measures to curb social discrimination (social sector reforms):
- Measures to stimulate different sectors of economic growth viz. agriculture, manufacturing and service sector:

5.6 Measures to curb fiscal deficit

Measures to correct the fiscal deficit are as follows – (Principle adopted is, "increase revenue and cut down expenditure").

5.6.1 Revenue Side

- Broadening of tax base: Few more services are added for taxation.
- To administer the tax collection effectively especially the outstanding tax revenue.
- Increasing service tax rate
- Increasing indirect taxes and rates for certain items
- Less borrowing to finance capital expenditure in order to reduce interest payment obligation

5.6.2 Expenditure Side

- Continuing disinvestments process - Privatization of public sector units. This decision will lead to
  - (a) Cut down in revenue expenditure, as employees are now private sector employees.
  - (b) One part of proceeds is used to repay debt leading to cut down in interest payment.

It is important to note that dividend loss due to privatization can be compensated through savings in interest payment by retiring debts.

- Substantial cut down of Non-plan expenditure.

6. CONCLUSION

Considering problems and measures taken by central government to stimulate economic growth it may be observed that government should focus on implementation of infrastructure projects in addition to strong measures taken in connection to curb fiscal deficit and therefore it is recommended that the foreign investment should be encouraged for joint venture in building infrastructure to strengthen the spending in infrastructure projects as Government is already running in huge fiscal deficit leaving very limited financial resources. This will provide favorable environment for industrial growth leading to overall economic growth, which in turn will generate employment and hence will increase purchasing power of general mass.

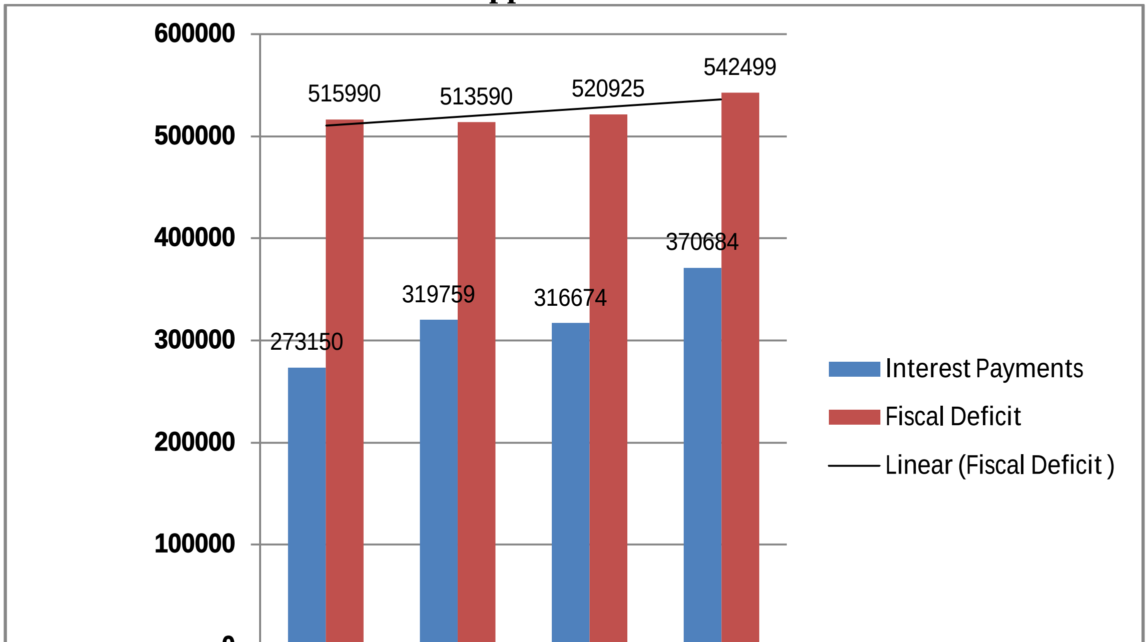
REFERENCES

1. No reference except for facts i.e. budgetary measures.
2. Source of budgetary measures is website: http://indiabudget.nic.in

Appendix I

			Budget at a Glance			
					(In crore of Rupees)	
			2011-2012	2012-2013	2012-2013	2013-2014
			Actuals	Budget	Revised	Budget
				Estimates	Estimates	Estimates
1.	Revenue Receipts		751437	935685	871828	1056331
	2.	Tax Revenue				
		(net to centre)	629765	771071	742115	884078
	3.	Non-Tax Revenue	121672	164614	129713	172252
4.	Capital Receipts (5+6+7)$		552928	555241	558998	608967
	5.	Recoveries of Loans	18850	11650	14073	10654
	6.	Other Receipts	18088	30000	24000	55814
	7.	Borrowings and other				
		liabilities *	515990	513590	520925	542499
8.	Total Receipts (1+4)$		1304365	1490925	1430825	1665297
9.	Non-Plan Expenditure		891990	969900	1001638	1109975
	10.	On Revenue Account	812049	865596	919699	992908
		of which,				
	11.	Interest Payments	273150	319759	316674	370684
	12.	On Capital Account	79941	104304	81939	117067
13.	Plan Expenditure		412375	521025	429187	555322
	14.	On Revenue Account	333737	420513	343373	443260
	15.	On Capital Account	78639	100512	85814	112062
16.	Total Expenditure (9+13)		1304365	1490925	1430825	1665297
	17.	Revenue Expenditure				
		(10+14)	1145785	1286109	1263072	1436169
	18.	Of Which, Grants for creation of				
		Capital Assets	132582	164672	124275	174656
	19.	Capital Expenditure				
		(12+15)	158580	204816	167753	229129
20.	Revenue Deficit (17-1)		394348	350424	391245	379838
			(4.4)	(3.4)	(3.9)	(3.3)
21.	Effective Revenue		261766	185752	266970	205182
	Deficit (20-18)		(2.9)	(1.8)	(2.7)	(1.8)
22.	Fiscal Deficit		515990	513590	520925	542499
	{16-(1+5+6)}		(5.7)	(5.1)	(5.2)	(4.8)
23.	Primary Deficit (22-11)		242840	193831	204251	171814
			(2.7)	(1.9)	(2.0)	(1.5)

Appendix II



	2011-2012	2012-2013	2012-2013	2013-2014
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